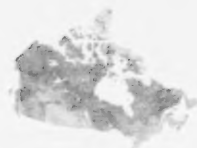




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Fuel Focus

*Understanding Gasoline Markets in Canada
and Economic Drivers Influencing Prices*

Volume 7, Issue 1

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National Overview

Moderate Rise in Canadian Retail Gasoline Prices to \$1.23 per Litre from Last Week

For the week ending January 24, 2012, the Canada average retail gasoline price was \$1.23 per litre, up 0.4 cent per litre from the previous week. This represents almost a 3 cent-per-litre increase since the beginning of the year.

Diesel fuel prices declined slightly to \$1.29 per litre compared to the previous week. This is an increase of 13 cents per litre from the same period last year. Furnace oil prices were down by less than 1 cent per litre from the previous week to an average of \$1.20 per litre.

The slight upward movement in retail gasoline prices reflects the moderate fluctuations in wholesale gasoline prices and in world crude oil prices.

Recent Developments

- **Euro Zone Crisis Could Reduce Oil Demand:** In a monthly report, the Organization of the Petroleum Exporting Countries (OPEC) indicate that further deterioration of the euro zone debt crisis would further reduce the region's oil demand and could impact consumption in emerging economies that are driving the increase in global fuel use. OPEC, whose 12 members pump more than a third of the world's oil, said oil demand in European members of the OECD was expected to fall by 160,000 bbls per day in 2012 and there was a risk the euro zone economy could contract this year. (Source: Daily Oil Bulletin, January 16, 2012)
- **New Motor Vehicle Sales:** Total new motor vehicle sales in Canada decreased 1% to 137,640 units in November 2011 compared to the same period in 2010, partially offsetting gains registered in September and October. Sales of new motor vehicles were down in eight provinces in November. Increases in the number of new motor vehicles sold in Quebec and Ontario in November were more than offset by declines in the other provinces. (Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/120116/dq120116a-eng.htm>)
- **U.S. East Coast Refinery Closure:** The recent idling of two refineries in southeastern Pennsylvania and previously announced plans to idle an additional refinery in the region by mid-2012 would, taken together, reduce operating refinery capacity along the entire East Coast by 27 percent. This reduction in refinery activity, if fully implemented and made permanent, looks set to reverse recent declines in U.S. gasoline imports even if end-user demand for gasoline continues to edge lower. (Source: EIA, <http://www.eia.gov/oog/info/twip/twip.asp>)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

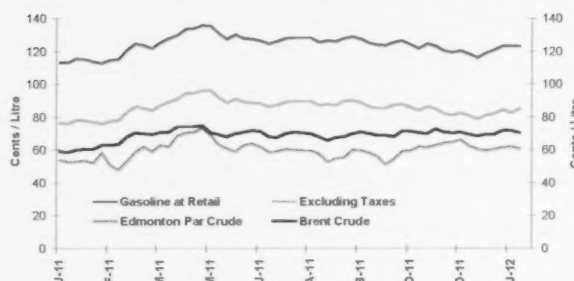
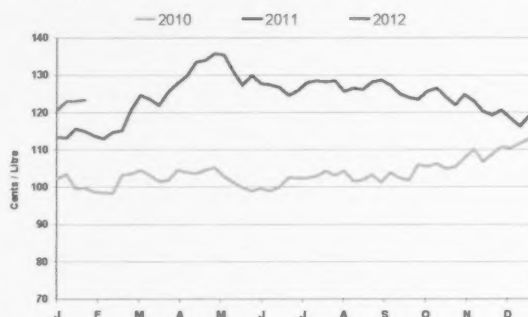


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-01-24	Previous Week	Last Year
Gasoline	123.3	+0.4	+8.4
Diesel	129.3	-0.1	+13.2
Furnace Oil	119.9	-0.4	+18.6

Source: NRCan

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Retail Gasoline Overview

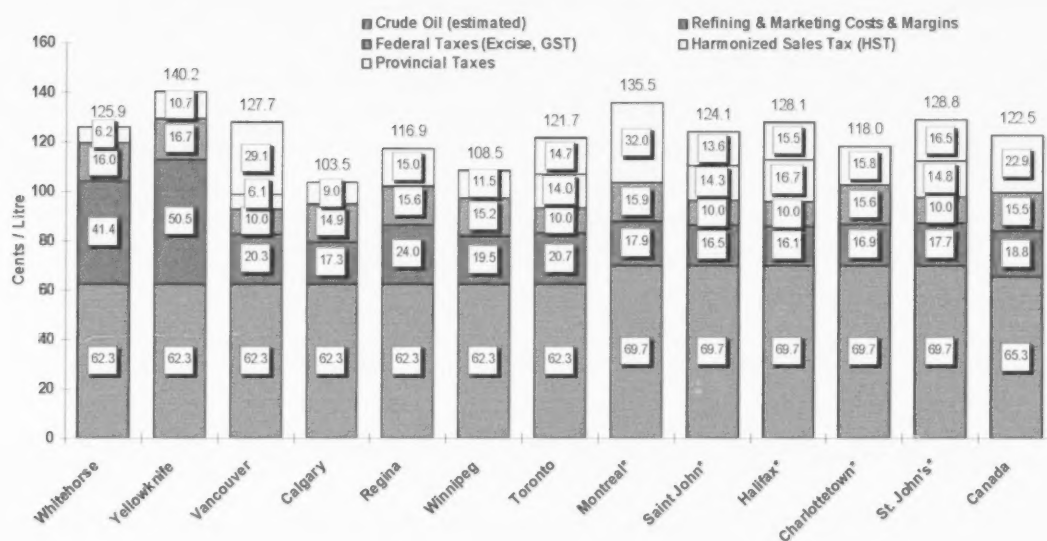
The **four-week average** Canadian pump price in selected cities across Canada was \$1.23 per litre for the period ending January 24, 2012. This represents an 8 cent-per-litre increase compared to the same period in 2011.

For the period ending January 24, 2012, the overall **four-week average** crude oil price decreased by nearly 2 cents per litre to 65 cents per litre compared to two weeks ago.

Retail gasoline prices in Western centres ranged from a decrease of 1 cent per litre to an increase of 1 cent per litre while prices in Eastern centres increased in the range of less than 1 to 2 cents per litre.

Refining and marketing costs and margins increased overall by 2 cents per litre from two weeks ago to 19 cents per litre, and are 3 cents per litre lower than last year at the same time.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (January 3 to 24, 2012)**



Source: NRCan

* Regulated Markets

Canadian Gasoline Taxes

Figure 3 shows the pump price components of gasoline. An important component, besides the crude oil cost, are the taxes paid on gasoline. For example:

- The federal excise tax at 10 cents per litre is unchanged since 1995.
- The ad valorem taxes include the goods and services tax of 5% or, in Newfoundland and Labrador, New Brunswick and Ontario, the harmonized sales tax of 13% and 15% in Nova Scotia. Quebec also applies a retail sales tax of 9.5%. Because they are a percentage of the overall price, ad valorem taxes, like the GST and the HST, increase as the excluding-tax gasoline price increases.
- Each province and territory levies per litre taxes. These vary widely, ranging from a low of 6.2 cents per litre in the Yukon to a high of 17.2 cents per litre in Quebec.
- Some municipalities also have taxes: Montreal (3 cents per litre); Vancouver (9 cents per litre); Victoria (3.5 cents per litre). British Columbia also has a carbon tax of 5.56 cents per litre.



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Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 72 to 83 cents per litre in selected centres for the **week of January 19, 2012**. Overall, compared to the previous week, Canadian and American centres recorded price changes ranging from a decrease of 1 cent per litre to an increase of more than 1 cent per litre.

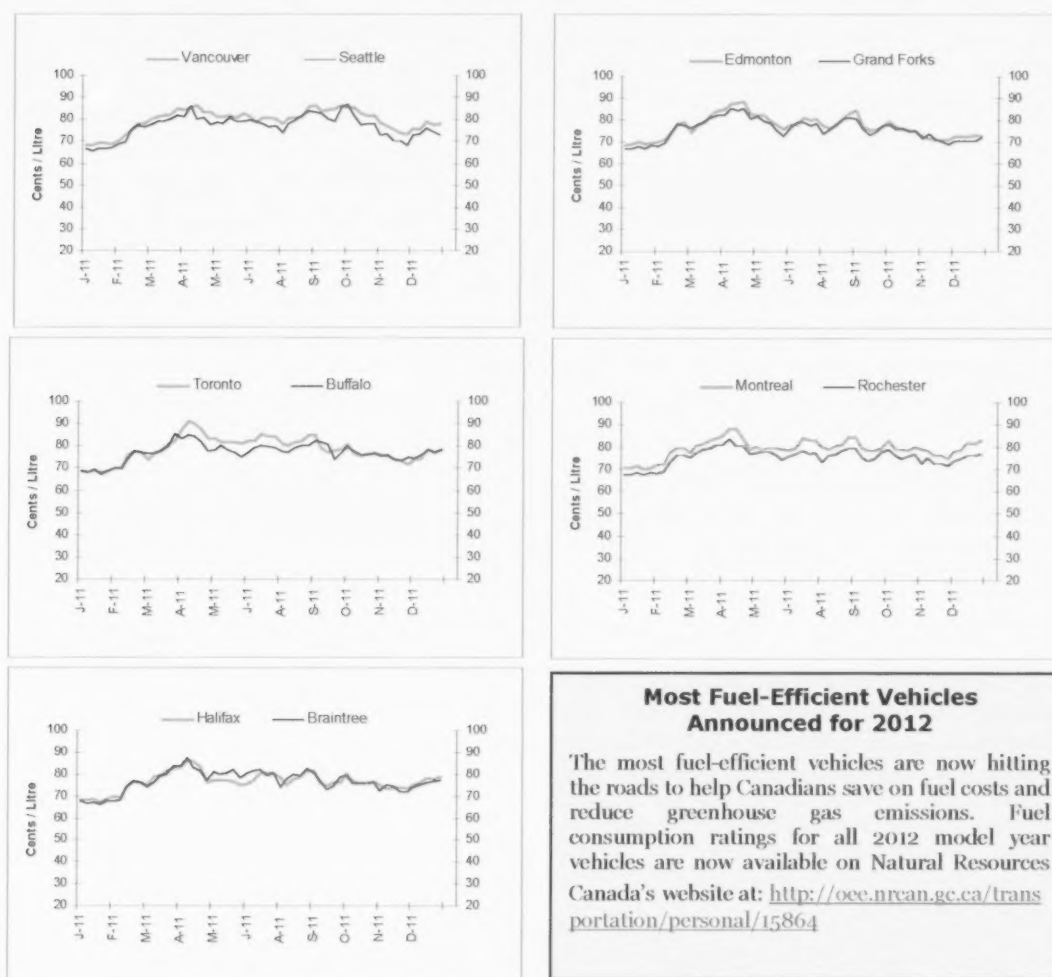
In the Western centres, price changes ranged between a decrease of 1 cent per litre to an increase of 1 cent per litre compared to the previous week, and ended at 72 to 78 cents per litre. The price fluctuation in Eastern

centres increased in the range of 1 cent per litre and ended at 77 to 83 cents per litre.

In the last four weeks, wholesale prices in most Canadian and American selected centres have increased in the range of less than 1 cent per litre to nearly 5 cents per litre.

Overall, compared to the same period last year, wholesale prices in all selected centres are above last year's level with increases ranging from 3 to 11 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending January 19, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Most Fuel-Efficient Vehicles Announced for 2012

The most fuel-efficient vehicles are now hitting the roads to help Canadians save on fuel costs and reduce greenhouse gas emissions. Fuel consumption ratings for all 2012 model year vehicles are now available on Natural Resources Canada's website at: <http://oec.nrcan.gc.ca/transportation/personal/15864>



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Gasoline Refining and Marketing Margins

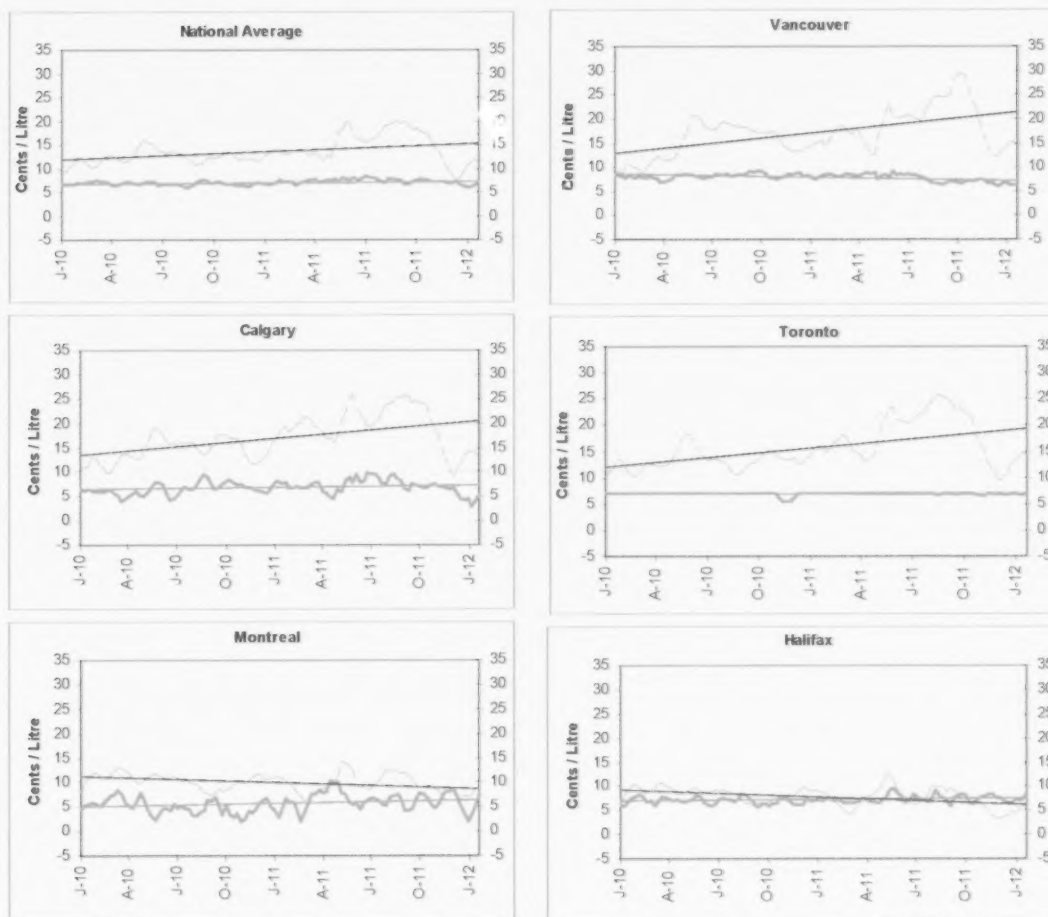
Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins for gasoline in Canada were on a downward slope in the latter part of 2011, reflecting the decrease in North American demand for gasoline and a well-supplied market. However, these margins have been improving gradually, hovering at around 11 cents per litre in the last four weeks.

For the four-week period ending January 24, 2012, refiner margins were nearly 12 cents per litre below last year's level of 14 cents per litre.

Nationally, marketing margins rose by nearly 1 cent per litre, slightly higher than for the same period last year. Marketing margins for the five centres ranged from 5 cents per litre in Calgary to 8 cents per litre in Halifax.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending January 24, 2012
----- Refining Margin
—— Marketing Margin



Source: NRCan





Crude Oil Overview

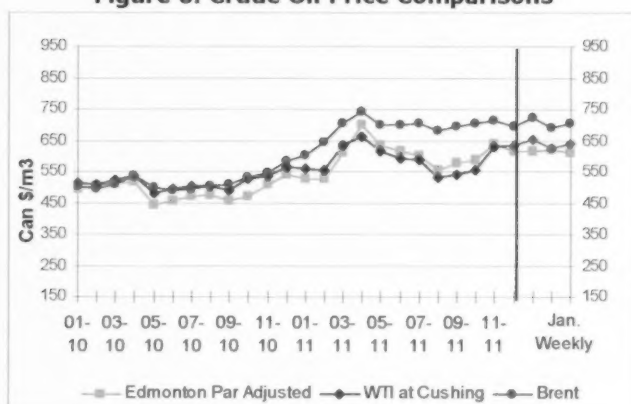
Moderate Price Swing despite Political Tensions between Iran and the West

For the week ending January 20, 2012, prices for the three marker crudes averaged between \$610/m³ and \$707/m³ (US\$95 to US\$110 per barrel). This is an increase of \$11 and \$2/m³ for Brent and Edmonton Par, respectively, compared to the previous week, while West Texas Intermediate (WTI) remained almost unchanged.

Iran's nuclear program and the threat of blocking the Strait of Hormuz, at the mouth of the Persian Gulf, continue to cause concern on energy markets. Brent crude rose to a seven week high of US\$113 per barrel (on January 4, 2012) after the European Union reached a preliminary agreement to ban imports of Iranian crude.

Iranian oil supplies to Europe are set to fall this year when a European Union embargo, due to be formally agreed upon in Brussels next week, is fully implemented in July. Although worries about disruptions to Iranian oil exports have supported higher oil prices, mild winter weather in the northern hemisphere and fears about an impending recession in the euro zone are helping to moderate crude oil prices. Saudi Arabia indicated it can increase production to help make up for any disruption in Iranian oil output. Canada has not imported crude oil from Iran since 1997, and economic sanctions preclude supporting Iran's oil industry.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-01-20		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	609.67	95.36	+1.60	+0.67	+74.47	+9.87
WTI	639.50	100.04	-0.46	+0.39	+77.36	+10.27
Brent	706.74	110.56	+11.04	+2.23	+100.41	+13.73

Source: NRCan

U.S. Short-Term Energy Outlook

The U.S. Energy Information Administration (EIA) released on January 10, 2012, forecast the price of West Texas Intermediate (WTI) crude oil to average about \$100 per barrel in 2012, \$5 per barrel higher than the average price last year. For 2013, EIA expects WTI prices to continue to rise, reaching \$106 per barrel in the fourth quarter of next year. EIA's forecast assumes that U.S. real gross domestic product (GDP) grows by 1.8 percent in 2012 and 2.5 percent in 2013, while world real GDP (weighted by oil consumption) grows by 2.9 percent and 3.8 percent in 2012 and 2013, respectively.

The forecast of average household heating expenditures for all heating fuels has been lowered from the first forecast for the current winter published in the *October 2011 Outlook*, primarily as a result of the warm first half of this heating season.

EIA expects regular-grade motor gasoline retail prices to average \$3.48 per gallon in 2012, 4 cents per gallon lower than last year, and \$3.55 per gallon in 2013. During the April through September peak driving season each year, prices are forecast to average about 5 cents per gallon higher than the annual average.

Source: U.S. EIA, <http://www.eia.gov/forecasts/steo/>



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